



February 8, 2002

Department of the Interior
Minerals Management Service
Mail Stop 4024
381 Elden Street
Herndon, Virginia 20170-4817
Attention: Rules Processing Team

RE: Proposed Rulemaking-Suspension of Operations for Exploration Under Salt Sheets

Dear Sir or Madam:

The Independent Petroleum Association of America (IPAA) submits the following comments on the proposed rule for Suspension of Operations for Exploration Under Salt Sheets. We applaud the MMS for drafting this proposed rule to modify regulations that govern suspensions of operations for exploration under salt sheets, and we support it wholeheartedly.

The IPAA is a national trade association representing approximately 5,000 independent oil and natural gas producers and service companies who are active in both the domestic and international arenas. In the Gulf of Mexico (GOM) portion of the OCS, independent producers own nearly 60 percent of the total acreage, including approximately 80 percent of the Shelf area and almost one-half in the deep-water portion. Independents produced a majority of the oil and natural gas in the Shelf portion of the GOM and participated in nearly half the wells drilled in the OCS in the calendar year 2000.

Under this proposed rule change, independent producers and service companies are likely to drill more wells overall, while reducing the number of unnecessary wells; their chances of discovering larger fields are significantly improved; and larger fields mean more domestic reserves and increased royalty revenues to the Government.

This rule is important and necessary because subsalt geology is so complex and the imaging process takes longer compared to conventional OCS prospects. In fact, the imaging process is evolving constantly and pushing the limits of new technology. To this regard, the Interior Department has recognized that processing times for the advanced pre-stack depth migration technology can take abnormally long, sometimes four or five years. In such cases, the current five-year lease term for OCS blocks can dramatically handicap companies pursuing subsalt targets.

Lessees who spend millions of dollars in diligent subsalt exploratory studies should not be required to drill prematurely and risk a dry hole in order to maintain a lease.

IPAA believes this draft MMS rule is a positive step forward for America's energy future. Both sides of aisle in the U.S. House of Representatives and Senate recognized the importance of extending subsalt leases for further geophysical work as part of national energy policy by including relevant provisions in their energy bills. Why? Lease extensions for subsalt activities will encourage more subsalt exploration and production in the Gulf of Mexico by providing greater lease term flexibility. The opportunity to obtain a lease extension will encourage more independent oil and natural gas operators to explore in the subsalt, many of whom are now on the sidelines because they view the tight time schedule as creating an unacceptable risk.

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Furthermore, exploring in the places where the biggest accumulations are likely to be found, such as the subsalt, yields the potential benefit of *finding* much larger reserves – thereby helping to meet the country's increasing energy demands and also generating more royalties for the federal government. During the 1990s, the average subsalt field discovered was four times the size of the average conventional field discovery – roughly 60 million barrels of oil equivalent (BOE) of reserves for subsalt fields, compared with 14 million BOE for conventional field discoveries.

This proposed rule change is clearly advantageous for the U.S. government as a royalty owner to make the lease terms more conducive to subsalt exploration, because bigger fields yield bigger royalties.

IPAA encourages MMS to incorporate clarifications contained in Anadarko Petroleum Corporation's letter to MMS regarding this matter, dated February 7, 2002, and encourages the MMS to apply the proposed suspension provisions to existing leases in the fourth or fifth year of their primary term. IPAA would like to provide further comment regarding Section 250.175(b)(2). Section 250.175(b)(2) requires the lessee to "collect and analyze appropriate geophysical information." This requirement is misleading, particularly when read in conjunction with the statement in the Supplementary Information section at 67 F.R. 1172 which reads: "MMS will require the lessee to have collected and analyzed geophysical information (i.e., full 3-D depth migration beneath the salt sheet and over the entire lease area) before the end of the third lease year...."

IPAA believes that a requirement to complete a full volume pre-stack depth migration within the first three years of the initial five year term to be overly burdensome for two reasons: 1) it may cause an unnecessarily significant financial investment early in the term of the lease and 2) pre-stack depth migration is time intensive and completion of the migration is at the mercy of the seismic processor's schedule. We would suggest that the activity necessary for a block to be eligible for a suspension of operations would be either to: 1) acquire a pre-stack time migration before the end of the 3rd year; or 2) commit financially (by contract) to perform a pre-stack depth migration before the end of the third year. If MMS considers making changes to the rulemaking regarding required activities in the first three years, similar changes will have to be made to Section 250.175(b)(4) for consistency.

Thank you for the opportunity to offer our views on this important rule change, and thank you for the high quality work and forward-looking insight that the MMS contributes.

Sincerely,



Chuck Davidson
Chairman
IPAA's Offshore Committee